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COMMENTS

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1) On R. J. Gordon

Professor Gordon's paper sorts out various explanations of four stylized macroeconomic facts in the 1980's:

1. U.S. fiscal deficits
2. high real interest rates
3. appreciated dollar
4. U.S. current account deficits.

Any plausible theory must explain all these stylized facts.

My major comment is that since real GNP or output fluctuated widely in the 1980's, a credible theory must also explain this movement of output. I suspect that this consideration strengthens Professor Gordon's argument rather than weakens it. However, with a lack of this consideration, "proof" is incomplete, for no major variables (except for government deficits) in discussion are income-adjusted. To see that this consideration is quantitatively important, one can recall that more than half of the movements in current account are explained by income rather than real exchange rate.

2) On Bruno

My comments concern some theoretical issues surrounding the framework of Professor Bruno's celebrated works.

In the analysis, firms or suppliers are assumed to be subject only to price constraints, not quantity constraints. Within this neoclassical framework, output falls because real input prices such as real wages are too high. But my reading of recent empirical evidences is that real wages are actually procyclical in most economies: real wages are high when output increases and *vice versa*. This seems to suggest that the Walrasian assumption of supplies made in the paper does not strictly hold.

Related to this problem is the flexibility of real wages. A standard neoclassical theory would indicate that flexible real wages fascilitate adjustment of the economy, and thereby results in stable output and production. However, a comparison of the prewar and postwar Japanese economies reveals that even though flexibility of real wages declined in the postwar period with a factor of three to one, the stability of industrial production remained unchanged. This shows that the usual neoclassical reasoning about prices and output misses something.

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